



THE CITY OF SAN DIEGO

Redevelopment Agency's Report

DATE ISSUED: June 11, 2003

REPORT NO. RA-03-20

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of June 17, 2003

SUBJECT: Impact on Redevelopment of State Budget ERAF Transfers

REFERENCE: Report No. RA-03-10

SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE AGENCY.

BACKGROUND

With the State's growing budget deficit, the Governor and the Legislature have explored several measures to close the budget gap. Just as redevelopment agencies contributed to ERAF shifts during the State's budget shortfalls in the early 1990's, the 2003 California State budget required redevelopment agencies to shift \$75 million statewide in property tax revenues to the Educational Revenue Augmentation Fund (ERAF) in Fiscal Year 2003 and again in 2004. This saves the State's General Fund \$75 million for each of those years because the fund transfer into the ERAF offsets that amount imposed by Proposition 98's State school funding requirement.

The San Diego Redevelopment Agency's proportionate share to the ERAF for Fiscal Year 2003 is \$1,352,055. This amount, which was transferred by May 18 as required by law, was allocated among the Agency's project areas based on the proportionate share of tax increment revenues generated by each area during Fiscal Year 2001. Of that amount, the Centre City Development Corporation transferred \$1,081,132, the Community and Economic Development project areas transferred \$190,281, and the Southeastern Economic Development Corporation transferred \$80,642.

While the ERAF transfers technically are allocated among the project areas, for description purposes, it is helpful to consider the impact of the transfers on the aggregate Agency budget. Total Agency tax increment for 2001 was approximately \$52.25 million. After subtracting existing obligations (low- and moderate-income housing set-aside fund, debt service and contract obligations, existing pass-through requirements, administration costs, and taxes and fees), the Agency remaining revenue is \$425,000. After the ERAF payment, the Agency balance is minus

\$925,000. This negative balance can be juggled for a short period through cash flow management and by short term delays of a few projects. However, a continuing negative balance will result in long delays or cancellations of pending projects.

In addition to the 2003 and 2004 ERAF requirements, the Governor's mid-year budget adjustment proposal included a one-time contribution to the ERAF of unencumbered low- and moderate-income housing funds, estimated to total \$500 million statewide. The Legislature did not include this in its adopted mid-year budget. The mid-year budget adjustment has been signed by the Governor, so this proposal is off the table for now.

DISCUSSION

The State's 2004 budget is being negotiated as this report is being written. The Agency Assistant Executive Director has traveled to Sacramento twice, first to provide testimony on behalf of both the San Diego Agency and as a board member of the California Redevelopment Association (CRA) to a joint meeting of the Senate Local Government Committee and the Senate Housing and Community Development Committee, and also to meet with members of the San Diego delegation. Further, Agency staff has worked closely with the Governmental Relations Department, San Diego's Sacramento representatives, and CRA to provide information and express concerns about the impacts to local redevelopment efforts of the budget proposals under consideration.

There are currently three pending budget proposals affecting redevelopment. The Governor's proposed 2004 budget recommended accelerating the pass-through of tax increment revenues to school districts. Under current law, redevelopment project areas already pass through a percent of tax increments to school districts. In most cases, the amount is 20 percent, increasing on a specified schedule for each project area. The Governor's proposed budget increases the pass-through to schools to 25 percent beginning in 2004, and increases the pass-through by 5 percent per year until the local base level is reached. For most of San Diego's project areas, the base level is 63 percent. If adopted, the impact to San Diego would be a transfer of about \$4.5 million in 2004 rising to about \$26.1 million **per year** after seven years (estimates based on 2001 assessed valuations – actual amounts will be greater because assessed valuations in project areas are rising). This would preclude issuing debt to finance planned projects, and would eventually eliminate redevelopment as a tool for revitalization. Because of the Agency's existing debt obligations and other contract and pass-through requirements, the proposed annual increase in pass-throughs would require the transfer of low- and moderate-income housing set-aside funds and, eventually, General Fund revenue to the State.

The State Legislature has so far taken steps for an alternative approach. The Senate Budget Subcommittee voted to transfer \$250 million. The Assembly Budget Subcommittee did not vote on a specific amount, but members discussed a shift of \$100 million. Locally, the impact would be \$4.5 million and \$1.8 million respectively (based on 2001 assessed valuations). In each case, the ERAF transfer is proposed for one year only, but this would not preclude transfers in future budget bills.

The State's budget has been referred to a joint Senate/Assembly Conference Committee. The transfer of redevelopment revenue to the State is only one of numerous difficult decisions for the conferees. All three proposals will be considered by the conferees, and it seems likely that the Senate, the Assembly, or a compromise transfer amount will be adopted.

The Governmental Relations Department and the City's representatives in Sacramento, along with CRA, have been conveying the following position to key members of the Legislature:

- A one year contribution to ERAF, rather than a long term contribution commitment, is necessary to retain redevelopment as a local government tool
- The statewide ERAF contribution should not exceed \$250 million
- Any decision regarding long term transfer of redevelopment funds should be considered as a part of the fiscal reform debate
- To enhance predictability, any ERAF should use FY 2001 assessed valuation as the base year

CRA is also proposing technical budget amendments that would allow local redevelopment agencies to increase their debt cap and extend the debt limit in order to meet a one-time ERAF shift without robbing low- and moderate-income housing funds or general funds. Attached to this report is a summary of ERAF impacts to specific projects.

CONCLUSION

The Redevelopment Agency Assistant Executive Director along with Agency staff will continue to work closely with the Governmental Relations Department, the City's Sacramento representatives, and CRA to protect the City of San Diego's redevelopment interests.

Respectfully submitted,

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Assistant Executive Director

CUNNINGHAM/MDJ

Attachment: ERAF Project Impacts

SAN DIEGO REDEVELOPMENT AGENCY ERAF Project Impacts

Impacts at Current ERAF Level

The San Diego Redevelopment Agency's *pro rata* share of the 2003 budgeted redevelopment ERAF shift (\$75 million statewide) is \$1.35 million. The amount projected for the budgeted 2004 ERAF shift is estimated at \$1.6 million. Following are pending projects that have been delayed as a result of these current and planned transfers:

Downtown (CCDC)

- *Public Improvements* – planned streetlights, streetscape, and other improvements to support planned private investment.
- *Affordable Housing* – required environmental remediation to allow development of the “Smart Corner” mixed-use (19 story residential, ground floor retail, mid-level office, underground parking) project at a major trolley stop

Impacts at Above the Current ERAF Level

Any ERAF imposing a *pro rata* payment greater than \$2 million (approx. \$115 million statewide) for more than two years would prevent the Agency from issuing planned tax allocation bonds for the Central Imperial, City Heights, Downtown, North Park, and San Ysidro Redevelopment Project Areas. Also, because continuing ERAF transfers may require contribution from the low- and moderate-income housing set-aside fund, the anticipated bond issuance for the Collaborative Affordable Housing Initiative would be precluded. Following are pending or planned projects that would be delayed or eliminated:

Barrio Logan (CED):

- *Urban Innovations* – mixed-use project, including large-unit low/mod housing (to be financed in part by City-wide low/mod bond).

Central Imperial (SEDC):

- *Housing Rehabilitation Loan/Grant Program* - eliminate programs affecting low-income families in Mt. Hope and Southcrest Project Areas.
- *5414 Market Street – Phase 2 (Tayrad LLC)* - on-site improvements.
- *Hilltop & Euclid Avenue* – required public improvements to support proposed residential project.
- *43rd & National Street* – planned public improvements.
- *Mt. Hope Village* – planned public improvements.
- *Gateway Center West* - planned acquisition/renovation.

City Heights (CED):

- *Central School Master Plan Project* – a master planned commercial and residential mixed-use development combined with a child care center, transit facilities, and circulation improvements, and an expansion and upgrade of the existing Central Elementary School.

- *El Cajon Boulevard/40th Street Mixed Use* – mixed-use development expected to include 100 residential units and 50,000 sf commercial and/or office uses.
- *El Cajon Boulevard/Central Avenue Mixed Use* –mixed-use development similar and complementary to the planned development across the freeway at El Cajon Boulevard and 40th Street.
- *City Heights Model School* –State-authorized Joint Powers Authority (comprised of the Agency, School District, City, and Housing Commission) project consisting of an elementary school, 375 rental and for-sale residential, 12,500 sf commercial, child care center, community service and recreation facilities, and open space in twenty acre site.
- *University Avenue/40th Street Mixed Use* –mixed-use development to establish the corner as a major transportation node.
- *La Maestra Community Clinic* – multi-story health clinic plus mixed-use project of 20 residential units and 15,000 sf retail commercial.
- *International Market* – 4 acre project to be anchored by an ethnic supermarket plus 2 stories of ethnic shops, artist studios, restaurants, and services surrounding a large decorative open plaza.
- *Home Avenue Park* – 6 acre community park.
- *Senior Housing Project* –100 senior housing units in a 3 story building with underground parking and ground floor retail space and community room.

Citywide (CCDC, CED, SEDC)

- *Collaborative Affordable Housing Initiative* – combined project area low-mod funds to be used to build 2,185 very low-, low-, and moderate-income housing.

Downtown (CCDC):

- *North Embarcadero Alliance* – master public improvements necessary for planned private development
- *Park-to-Bay Link* – public improvements along trolley corridor linking Balboa Park to the Bay
- *India Street* – required public improvements for private development already underway
- *East Village Ballpark* – required public improvements to support ballpark already under construction and anticipated private development
- *Main Library* – committed redevelopment contribution

Naval Training Center (CED):

- *Public Improvements* - reimbursement to master developer for additional City-imposed requirements (new water lines, storm drains)
- *Boat Channel* – environmental remediation upon conveyance from the Navy
- *NTC Foundation* – repayment of Sec. 108 loan for historic preservation
- *Traffic Improvements* – required public improvements for changed uses

North Bay (CED):

- *Midway Sports Arena* - mixed-use project with 2,000 housing units, 100,000 sf retail and office, and park.
- *SPAWAR District* - 500,000 sq. ft. software, instrument, and telecommunications office uses to support SPAWAR (Navy's information technology center).
- *Morena Boulevard* – second of 2 mixed-use projects, to include 100 housing units.
- *Voltaire Street Housing* - 50-unit mixed-use project.

North Park (CED):

- *30th Street (North of North Park Way)* - 400-space public parking structure incorporating 4,000 to 8,000 square feet of ground floor commercial space.
- *30th Street (South of Lincoln)* - mixed-use project with 259 residential units and 20,000 square feet of ground floor commercial.
- *30th Street (North of El Cajon Boulevard)* - mixed-use project with 135 residential units and 13,000 square feet of ground floor commercial space.
- *University Avenue (West of 31st Street)* - mixed-use project with 88 residential units and 12,000 square feet of ground floor commercial space.

San Ysidro (CED):

- *San Ysidro Library* – committed redevelopment contribution to new branch library.
- *Public Improvements* – required public improvements (sidewalks, curbs and gutters, streetlights, street furniture, and landscaping) for anticipated private development on San Ysidro Blvd.
- *Supermarket* - the San Ysidro community's highest priority project, a supermarket of 45,000 sf.
- *West San Ysidro Blvd* - a mixed-use commercial and residential project plus public parking.